

**Houghton County Road Commission  
Component Unit Financial Statements  
For the Year Ended September 30, 2004**

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name Houghton County Road Commission		County Houghton
Audit Date 9/30/04		Opinion Date 1/21/05		Date Accountant Report Submitted to State: 3/31/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Anderson, Tackman & Co, P.C.			
Street Address 102 W. Washington St, Suite 109		City Marquette	State MI
Accountant Signature Michael A. Sj		ZIP 49855	

HOUGHTON COUNTY  
BOARD OF COUNTY ROAD COMMISSIONERS

Paul H. Jurmu, Jr., Chairperson

Kenneth A. Rowe, Vice Chairperson

William H. Siler, Member

James B. Manderfield, County Highway Engineer

William E. Obst, Office Manager

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# ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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GREEN BAY  
MILWAUKEE

## INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners  
Houghton County Road Commission  
Hancock, MI 49930

We have audited the accompanying financial statements of the governmental activities of the Houghton County Road Commission a component unit of the County of Houghton, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, of the Houghton County Road Commission as of September 30, 2004, and the changes in financial position there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information and Supplemental Financial Information is not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a separate report to management dated January 21, 2005 on our consideration of the Houghton County Road Commission's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and

Honorable Chairman and Members  
of the Board of Commissioners  
County of Houghton, Michigan

compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinion's on the financial statements that collectively comprise the Houghton County Road Commission's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Houghton County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

January 21, 2005

## **Houghton, County Road Commission MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

Our discussion and analysis of Houghton County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended September 30, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services are financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

The Houghton County Road Commission is one of the most unique county road commissions in the State of Michigan due to their yearly budget being so dependent upon the severity of the winter season.

The Houghton County Road Commission routinely spends between 30% and 50% or more of their Michigan Transportation income on snow removal costs each year, the highest in the State of Michigan.

The highest cost of snow removal is due to five month long winters with up to 350 inches of snow and the extremely high cost of operating and maintaining a 10 million dollar fleet of specialized equipment needed to operate, not only the open county roads, but in the narrow 25 or 30 foot right-of-ways in the old mining era residential locations.

In addition to the operating costs associated with sophisticated snow removal equipment, the Houghton County Road Commission must annually place and clean up some 15,000 tons of abrasives and salt on their 835 mile county road system.

The winter maintenance activity typically may last up to 6 months or more, and is the top priority item in the development of an operating budget each year, with contract federal aid construction, routine maintenance and road commission financed construction following in order of priority.

### **Overview of the Financial Statements**

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

### **Overview of the Financial Statements**

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to ensure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

**Houghton, County Road Commission**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

**Reporting the Commission as a Whole**

Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commissions' net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the conditions of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on page 13. The fund financial statements begin on page 26 and provide detailed information about the major fund.

Governmental Funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

**Financial Analysis of the Road Commission as a Whole**

The Road Commission's net assets increased approximately 24%, or \$1,662,664, from \$6,865,121 to \$8,527,785 for the year ended September 30, 2004. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on the by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, and charge or otherwise mandate payment of resources and include a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the



**Houghton, County Road Commission**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

legislation; as such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The restricted net assets decreased by \$429,160 during 2004.

The decrease in restricted net assets occurred because of the \$645,000 reduction in investments and a \$55,000 reduction in sundry accounts (taxes receivable).

The investment in capital assets, net of related debt increased by \$2,091,824. The increase in net assets is primarily the result of the reporting infrastructure \$2,416,935 for the year 2004. The depreciation for the current year's infrastructure will be depreciated in the subsequent years. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB 34.

Net assets as of year ended September 30, 2004 follows:

Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2004 follows:

	<u>Governmental Activities</u>
Program Revenue:	
License and Permits	\$ 18,101
Federal Grants	1,069,818
State Grants	4,265,960
Contributions From Local Units	280,390
Charges for Services	50,269
Investment Earnings	2,663
Reimbursements	44,084
General Revenue:	
Taxes	428,216
Gain on Equipment Disposal	<u>11,717</u>
Total Revenue	<u>6,171,218</u>
Expenses	
Public Works	4,504,972
Interest Expense	<u>3,582</u>
Total Expenses	<u>4,508,554</u>
Excess Before Transfers	1,662,664
Transfers In—Primary Government	<u>-</u>
Increase in Net Assets	<u>\$1,662,664</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

**Houghton, County Road Commission**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)** (Continued)

For the year ended September 30, 2004, the fund balance of the general operations fund decreased \$409,596 as compared to an increase of \$425,732 in the fund balance for the year ended September 30, 2003. Total operating revenues were \$6,171,218, a decrease of \$2,763,156 as compared to last year. Total expenditures were \$6,580,814, a decrease of \$1,927,828, as compared to last year.

The fund balance increase of \$425,732 in 2003 was mainly due to having fewer accounts payable to contractors at year's end.

Total operating revenues increased due to a \$983,000 gain in equipment expense for the value of 10 motor graders traded in on 10 new units, a \$130,000 increase in federal aid revenues and \$44,000 received for local road construction from Bacco Construction Company, and Point Mills Estates residents.

Operating revenues are also shown artificially high by having to report 13 months of MTF revenues as required by GASB 34.

A summary of changes in the Operating Fund is as follows:

	9/30/04 <u>Operating Fund</u>	9/30/04 <u>Operating Fund</u>	Favorable (Unfavorable) <u>Variance</u>	Variance <u>Percent</u>
<b>Revenues</b>				
Taxes	\$ 428,216	\$ 414,936	\$13,280	3%
License & Permits	18,101	8,819	9,282	105
Federal Grants	1,069,818	1,249,034	(179,216)	14
State Grants	4,265,960	4,308,066	(42,106)	1
Contributions From Local Units	280,390	386,033	(105,643)	27
Charges for Services	50,269	1,430,370	(1,380,101)	96
Interest and Rents	2,663	95,462	(92,799)	97
Other Revenue	<u>55,801</u>	<u>1,041,654</u>	<u>(985,853)</u>	<u>95</u>
Total Revenues	<u>6,171,218</u>	<u>8,934,374</u>	<u>(2,763,156)</u>	<u>31</u>
<b>Expenditures</b>				
Public Works	6,893,973	7,456,728	562,755	8
Net Capital Outlay	(316,741)	1,047,999	1,364,740	130
Debt Service	<u>3,582</u>	<u>3,915</u>	<u>333</u>	<u>9</u>
Total Expenditures	<u>6,580,814</u>	<u>8,508,642</u>	<u>1,927,828</u>	<u>23</u>
Excess of Expenditures Over Revenues	<u>(409,596)</u>	<u>425,732</u>	<u>(835,328)</u>	<u>196</u>
Excess of Revenues and Other Financing Sources Over Expenditures	(409,596)	425,732	(835,328)	196
Fund Balance—Beginning	<u>1,661,481</u>	<u>1,235,749</u>	<u>425,732</u>	<u>34</u>
Fund Balance--Ending	<u>\$1,251,885</u>	<u>\$1,661,481</u>	<u>\$(409,596)</u>	<u>25 %</u>

**Budgetary Highlights**

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and

**Houghton, County Road Commission**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)** (Continued)

authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2004 was \$465,601, lower than the original budget. The actual revenue recognized during 2004 was greater than the final amended budget by \$46,819.

The final amended expenditure budget for 2004 was \$381,619, higher than the original budget. The actual expenditures recognized during 2004 were less than the final amended budget by \$390,805.

The majority of the increase in the fund balance for the year ending 2003 over 2002 consisted of an increase in the county wide mileage of \$30,342 and an increase in the Michigan Transportation Fund of \$351,009, while county road maintenance remained about the same as 2002.

The decrease in the 2004 fund balance of \$409,596 was primarily due to an increase in unanticipated winter maintenance expenditures of \$332,000 and an additional \$94,000 in summer heavy maintenance work.

The operating revenues decreased significantly for a number of reasons.

The first was the absence of the state maintenance contract which reduced both revenues and expenditures by \$1,380,101.

The second was the large imbalance of the capital outlay from 2003 when 10 motor graders were purchased, and caused a net capital outlay of (\$971,660).

Other declines included local units of government work by \$105,643, federal aid work by \$216,260 and dust oil applications for \$56,000.

The decrease in expenditures of \$1,927,828 was due mainly to the elimination of the state maintenance contract of \$1,377,388 and the reduced capital outlay for the 10 motor graders in 2003.

Expenditures of the county road system actually increased in 2004, first by increasing winter maintenance expenses by \$332,000 due to a worse than normal winter and the addition of an afternoon shift to better serve the public.

Summer, heavy maintenance, was also increased by \$94,000 worth of improvements.

The discontinuance of the state maintenance contract also affected other items within the county road commission's financial statement.

While 2004 shows a loss of \$120,000 credit to administrative costs compared to 2003, the tentative 2004 budget provided by MDOT allowed only \$67,907 in overhead charges from a greatly reduced budget of \$798,910.

Cash revenues also benefited from over \$80,000 in royalties received from the sale of stamp sand to MDOT in 2003, however, the desire of MDOT to eliminate stamp sand use altogether and the use of any sand at temperatures of over 0 degrees F meant that this revenue stream was to be eliminated for the Houghton

**Houghton County Road Commission**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

County Road Commission.

While the sale of stamp sand was beneficial to the Houghton County Road Commission on the short term, the eventual end of the unique source of winter abrasives could mean that the county may have to pay 5 or ten times that value for a replacement product in the future, lessening the desirability to make the stamp sand available to other users at any cost.

Equipment rentals were also down for 2004 against 2003, due partly to the missing state maintenance contract but buffered by higher-county road expenditures because of increased winter maintenance costs.

Higher rental rates for 2004 were inevitable, again because MDOT had eliminated standby equipment rates, making the contract less desirable for Houghton County, as county equipment costs rise.

Three other items of concern with which Houghton County felt they were losing money on the state maintenance contract were: 1. Unrecoverable indirect maintenance costs associated with MDOT afternoon and weekend shifts; 2. The much higher wear and tear on equipment needed for trunklines vs. county roads because the average costs are charged to each agency. 3. Remobilization of crews to respond to trunkline emergencies.

These items were actually placed into the new contract for study by February 2004 and resolution by May 2004. As of January 2005, there has been no study of these items which have been a financial liability to road commissions similar to Houghton County.

There still are a number of budgetary items to be considered in order to accomplish total termination of state maintenance contract liabilities.

A preliminary closure audit being performed in 2005 is showing that \$200,640 is owed to the department for overcharges in the past two years.

In addition, an advance maintenance deposit of \$92,236 and a capital equipment advance of \$201,947 would be due to the department in equal amounts of \$58,575 over the next five years.

**Capital Asset and Debt Administration**

Capital Assets

As of September 30, 2004, the Road Commission had invested \$7,652,101 in capital assets. This amount represents a net increase (including additions and deductions) of \$2,091,824 or 38% as follows:

	<u>2004</u>	<u>2003</u>	<u>Total Percentage Change 2004/2003</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 78,148	\$ 78,148	0%
Land/Right-of-Way	-	-	N/A
Construction in Progress	-	-	N/A
Subtotal	<u>78,148</u>	<u>78,148</u>	<u>0%</u>

**Houghton, County Road Commission**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

	<u>2004</u>	<u>2003</u>	<u>Total Percentage Change 2004/2003</u>
Capital Assets Being Depreciated			
Depletable Assets	\$ 102,093	\$ 102,093	0%
Buildings	1,349,998	1,333,528	1%
Equipment	8,445,485	8,277,778	2%
Yard and Storage	-	-	0%
Infrastructure	<u>4,810,527</u>	<u>2,393,592</u>	<u>101%</u>
Subtotal	<u>14,708,103</u>	<u>12,106,991</u>	<u>21%</u>
Total Capital Assets	-	-	N/A
Total Accumulated Depreciation	<u>7,134,150</u>	<u>6,624,862</u>	<u>8%</u>
Total Net Capital Assets	<u>\$ 7,652,101</u>	<u>\$5,560,277</u>	<u>38%</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$4,810,527 and an additional \$-0- in construction in progress related to the infrastructure. The infrastructure recorded, during 2004, will be depreciated in the following year. The infrastructure is financed through federal, state and local contributions. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB 34.

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$ -
Various Resurfacing Projects and Related Land/Right-of-Way	-
Construction in Progress (Various Resurfacing Projects)	2,416,935
Trucks/Equipment	488,751
Buildings	16,470
Yard and Storage	-
Total Additions	<u>\$2,922,156</u>

During 2004, the Road Commission traded in and/or disposed of equipment (road, shop, office and engineer) with a purchase amount of \$321,044, related depreciation of \$321,044, and net book value of \$0.

**Debt**

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note I to the financial statements.

**Economic Factors and Next Year's Budget**

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derives approximately 50% of its revenues from the fuel tax collected.

The Board of County Road Commissioners considered many factors when setting the fiscal year 2004 budget. One of the factors is the economy. The Road Commission derives approximately 50% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it was estimated that the Road Commission will receive \$109,387 (2.8%) more Michigan Transportation Fund

**Houghton, County Road Commission**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

revenues in 2004. However, it was decided to sue a more conservative figure of approximately the same MTF income as last year.

Fuel tax projected collections are provided by the State of Michigan.

Property taxes usually are very stable with slight increases due to new construction in the county.

The most difficult revenues to project are federal and state economic development monies which in many cases can be awarded by grant application during the year, and also can be very difficult to time revenues because of outside contractor scheduling and performance work.

**Contacting the Commission's Financial Management**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Houghton County Road Commission's administrative offices at P.O. Box 269, Hancock, Michigan, 49930.

**Houghton County Road Commission**  
**Governmental Funds Balance Sheet / Statement of Net Assets**  
**September 30, 2004**

	Modified Accrual Basis	Adjustments	Statement Of Net Assets
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 600	\$ -	\$ 600
Investments	466,115	-	466,115
Accounts Receivable			
Taxes	-	-	-
Michigan Transportation Fund	621,348	-	621,348
State Highway - Other	17,495	-	17,495
Due From Primary Government	-	-	-
Due on County Road Agreements	-	-	-
Sundry Accounts	193	-	193
Inventories			
Road Materials	242,511	-	242,511
Equipment Parts and Materials	322,793	-	322,793
Prepaid Expenses	-	-	-
Deferred Expenses	3,757	-	3,757
Other Assets	-	-	-
Capital Assets (Net of Accumulated Depreciation)	-	7,652,101	7,652,101
<b>Total Assets</b>	<u>\$ 1,674,812</u>	<u>\$ 7,652,101</u>	<u>9,326,913</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	\$ 106,337	\$ -	\$ 106,337
Due to State of Michigan	-	-	-
Accrued Liabilities	22,407	-	22,407
Performance Bonds Payable	-	-	-
Due to Townships	-	-	-
Interest Payable	-	-	-
Advances	294,183	-	294,183
Deferred Revenue	-	-	-
Non-Current Liabilities			
Bonds Payable - Due Within One Year	-	-	-
Notes Payable - Due Within One Year	-	-	-
Bonds Payable - Due After One Year	-	-	-
Notes Payable - Due After One Year	-	-	-
Accumulated Employee Benefits	-	376,201	376,201
<b>Total Liabilities</b>	<u>422,927</u>	<u>376,201</u>	<u>799,128</u>
<b>FUND BALANCE/NET ASSETS</b>			
Fund Balances - Unreserved	1,251,885	(1,251,885)	-
<b>Total Fund Equities</b>	<u>1,251,885</u>	<u>(1,251,885)</u>	<u>-</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 1,674,812</u>		
<b>Net Assets</b>			
Invested in Capital Assets - Net of Related Debt		7,652,101	7,652,101
Restricted for County Road		875,684	875,684
<b>Total Net Assets</b>		<u>\$ 7,275,900</u>	<u>\$ 8,527,785</u>

*The Notes to Financial Statements are an integral part of this statement..*

**Houghton County Road Commission**  
Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance / Statement of Activities  
For the Year Ended September 30, 2004

	Modified Accrual Basis	Adjustments	Statement Of Net Assets
<b>Revenue</b>			
Property Taxes	\$ 428,216	\$ -	\$ 428,216
License and Permits	18,101	-	18,101
Federal Grants	1,069,818	-	1,069,818
State Grants	4,265,960	-	4,265,960
Contributions From Local Units	280,390	-	280,390
Charges for Services	50,269	-	50,269
Interest and Rents	2,663	-	2,663
Other Revenue	55,801	-	55,801
<b>Total Revenue</b>	<u>6,171,218</u>	<u>-</u>	<u>6,171,218</u>
<b>Expenditures</b>			
Current			
Primary Road Construction	-	-	-
Primary Road Heavy Maintenance	2,102,782	(2,102,782)	-
Primary Road Maintenance	1,791,745	-	1,791,745
Local Road Construction	-	-	-
Local Road Heavy Maintenance	314,153	(314,153)	-
Local Maintenance	1,960,879	-	1,960,879
State Trunkline Maintenance	18,036	-	18,036
Equipment Expense - Net	263,611	-	263,611
Administrative Expense - Net	442,767	-	442,767
Compensated Absences	-	19,564	19,564
Capital Outlay - Net	(316,741)	325,111	8,370
Infrastructure Depreciation	-	-	-
Other Expense	-	-	-
Debt Service			
Principal	-	-	-
Interest	3,582	-	3,582
<b>Total Expenditures</b>	<u>6,580,814</u>	<u>(2,072,260)</u>	<u>4,508,554</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	<u>(409,596)</u>	<u>(2,072,260)</u>	<u>1,662,664</u>
<b>Other Financing Sources</b>			
Proceeds From Notes/Bonds Payable	-	-	-
Transfers In - Primary Government	-	-	-
<b>Total Other Financing Sources</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures</b>	<u>(409,596)</u>	<u>2,072,260</u>	<u>1,662,664</u>
<b>Change in Net Assets</b>	<u>(409,596)</u>	<u>(2,072,260)</u>	<u>1,662,664</u>
<b>Fund Balance/Net Assets - Beginning of Year</b>	1,661,481	5,203,640	6,865,121
<b>Fund Balance/Net Assets - End of Year</b>	<u>\$ 1,251,885</u>	<u>\$ 7,275,900</u>	<u>\$ 8,527,785</u>

*The Notes to the Financial Statements are an integral part of this statement.*



## Houghton County Road Commission

Notes to Financial Statements  
September 30, 2004

### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of Houghton County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Houghton County Road Commission.

#### **(1) Reporting Entity**

The Houghton County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Houghton County Road Commission, a discretely presented component unit of Houghton County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

#### **(2) Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Houghton County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

### **(3) Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(4) Assets, Liabilities, and Net Assets or Equity**

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Property Taxes Receivable

The property tax is levied on each December 1<sup>st</sup> on the taxable valuation of property located in the county as of the preceding December 31<sup>st</sup>. The 2003 taxable valuation of the Houghton County Road Commission amounted to \$546,434,564 less \$184,752,811 for cities and villages, on which ad valorem taxes of 1.2830 mills were levied for the Road Commission for road construction purposes for a total of \$428,216.

In the government-wide financial statements, the property taxes receivable is recorded as revenue when the tax is levied in the current year.

Although the county's 2003 ad valorem tax is levied and collectible on December 1, 2003, it is the Road Commission's policy to recognize revenues from the current tax levy in the current year. When the proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Houghton County Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before September 30, 2007 as permitted by GASB 34.

### Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure—Roads	8 to 30 years
Infrastructure—Bridges	12 to 50 years

### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund Statement of Net Assets.

### Compensated Absences (Vacation and Sick Leave)

It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds.

## **NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

### Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the county board of commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board does not conduct a public budget hearing, the budget is submitted to the county and included in its public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

## NOTE C – CASH DEPOSITS AND INVESTMENTS:

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Petty Cash	\$ 600
Investments	<u>466,115</u>
Total	<u>\$466,715</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States, United States governmental or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivision which are treated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Petty Cash and Cash on Hand	\$ 600	\$ -
Cash with County Treasurer	<u>466,115</u>	<u>466,715</u>
Total	<u>\$466,715</u>	<u>\$466,715</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations. The risk disclosures for the Road Commission deposits, as required by Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Deposits and Imprest Cash	<u>\$600</u>	\$ -
Total	<u>\$600</u>	<u>\$ -</u>

## NOTE C – CASH DEPOSITS AND INVESTMENTS (Continued):

The Road Commission's investments are categorized below to give an indication of the level of risk assumed by the entity. Risk-category 1 includes those investments that meet any one of the following criteria: insured, registered or held by the Road Commission or its agent.

Municipal Investment Fund – Held with County Treasurer \$466,115

## NOTE D – DEFERRED COMPENSATION PLAN:

The Houghton County Road Commission offers all its employees a deferred compensation plan created accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Houghton County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Houghton County Road Commission's financial statements.

## NOTE E – CAPITAL ASSETS:

Capital asset activity of the Houghton County Road Commission for the current year was as follows:

	Beginning Balances 10/01/03	Additions	Deletions	Ending Balances 9/30/04
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 78,148	\$ -	\$ -	\$ 78,148
Land/Right-of-Way	-	-	-	-
Construction in Progress	-	-	-	-
Subtotal	<u>78,148</u>	<u>-</u>	<u>-</u>	<u>78,148</u>
Capital Assets Being Depreciated:				
Depletable Assets	102,093	-	-	102,093
Buildings	1,333,528	16,470	-	1,349,998
Road Equipment	7,948,234	486,694	321,044	8,113,884
Shop Equipment	208,461	782	-	209,243
Office Equipment	121,083	1,275	-	122,358
Engineers' Equipment	-	-	-	-
Yard and Storage	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	<u>2,393,592</u>	<u>2,416,935</u>	<u>-</u>	<u>4,810,527</u>
Subtotal	<u>12,106,991</u>	<u>2,922,156</u>	<u>321,044</u>	<u>14,708,103</u>

**NOTE E – CAPITAL ASSETS (Continued):**

	Beginning Balances 10/01/03	Additions	Deletions	Ending Balances 9/30/04
Less Accumulated Depreciation:				
Depletable Assets	\$ 37,621	\$ 165	\$ -	\$ 37,786
Buildings	587,985	47,819	-	635,804
Road Equipment	5,792,905	757,846	321,044	6,229,707
Shop Equipment	110,259	15,512	-	125,771
Office Equipment	96,092	8,990	-	105,082
Engineers' Equipment	-	-	-	-
Yard and Storage	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	-	-	-	-
Subtotal	<u>6,624,862</u>	<u>830,332</u>	<u>321,044</u>	<u>7,134,150</u>
Net Capital Assets Being Depreciated	<u>5,482,129</u>	<u>2,091,824</u>	<u>-</u>	<u>7,573,953</u>
Total Net Capital Assets	<u>\$5,560,277</u>	<u>\$2,091,824</u>	<u>\$ -</u>	<u>\$7,652,101</u>

Depreciation expense was charged to programs of the Houghton County Road Commission as follows:

Equipment Expense:	
Direct	\$757,845
Indirect	50,975
Operating	8,371
Administrative Expense:	
Inventory	12,976
Maintenance	165
Total Depreciation Expense	<u>\$830,332</u>

**NOTE F – EMPLOYEE RETIREMENT AND BENEFIT:**Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

**Plan Description** – The Houghton County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all nonunion employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Gabriel, Roeder, Smith & Company, One Town Square, Suite 800, Southfield, Michigan, 48076.

**Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Houghton County Road Commission's competitive bargaining units and requires a contribution from the employees of 16.62% of gross wages for the County Road Commission.

## **NOTE F – EMPLOYEE RETIREMENT AND BENEFIT (Continued):**

**Annual Pension Costs** – For year ended 2003, Houghton County Road Commission's annual pension cost of \$66,972 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal funding method. Significant actuarial assumptions used include: (1) an 8% investment rate of return; (2) projected salary increases of 4.5% per year; and (3) 4.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of September 30 follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Annual Pension Cost (APC)	\$76,045	\$58,656	\$66,972
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	-	-	-
Actuarial Value of Assets	2,296,396	2,317,530	2,439,095
Actuarial Accrued Liability (AAL)	2,577,932	2,702,082	2,873,598
Unfunded AAL (UAAL)	281,536	384,552	434,503
Funded Ratio	89%	86%	85%
Covered Payroll	376,912	402,940	395,083
UAAL as a Percentage of Covered Payroll	75%	95%	110%

### Defined Contribution Pension Plan

The Houghton County Road Commission provides pension benefits to all of its full-time union employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by union contract, the Houghton County Road Commission contributes a fixed amount per the union agreement, plus interest allocated to the employee's account, and are fully vested after 10 years of service.

The current year contribution was calculated based on \$65 per employee, for 40 employees, resulting in an employer contribution of \$128,352 and employee contributions of \$-0-.

## **NOTE G – FEDERAL GRANTS:**

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended September 30, 2004, the Federal aid received and expended by the Road Commission was \$960,426 for contracted projects and \$109,392 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.



## **NOTE H – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION:**

The Road Commission provides post-retirement health care benefits, in accordance with labor contracts and personnel policy, to all employees who retire from the Road Commission. Full premium of medical benefits for the retired employees only, between 60 and 65 years old are paid by the Road Commission. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts. Currently, 3 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, net expenditures of \$8,440 were recognized for post-retirement health care.

## **NOTE I – GENERAL LONG-TERM DEBT:**

The general long-term debt of the Road Commission may be summarized as follows:

	Balance October 1, 2003	Additions (Reductions)	Balance September 30, 2004
Vested Employee Benefits:			
Vacation Benefits	\$ 41,458	\$ 5,567	\$ 47,025
Sick Leave Benefits	<u>315,179</u>	<u>13,997</u>	<u>329,176</u>
TOTAL	<u>\$ 356,637</u>	<u>\$ 19,564</u>	<u>\$ 376,201</u>

### Vested Employee Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year.

Employees who anticipate the need for an extended vacation shall be allowed (on receiving approval from the County Engineer) to use up to two (2) weeks of the next year's vacation for such purpose, but not in the months of November, December, January, or February.

### Sick Leave Benefit Policies

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 3/4 day, or 6 hours, for each completed month of employment. Sick leave may be accumulated to a maximum of 90 days. On an annual basis sick leave accruals over the 90 days are paid off at 100 percent for the first 5 days and 50 percent for any additional time accrued.

Three personal days are allowed each employee per calendar year. If the personal days are not used during the year they are added to the sick leave accruals for the year.

Upon retirement, death or discontinuance of employment for any reason, except for dismissal for disciplinary reasons, the employee shall be paid for all accumulated sick leave at the employee's prevailing rate of pay at the time of the termination of employment.

Required Supplemental Information

**Houghton County Road Commission**  
**General Operating Fund**  
**Statement of Revenues - Budget and Actual**  
**For the Year Ended September 30, 2004**

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Taxes	\$ 390,000	\$ 428,000	\$ 428,216	\$ 216
Licenses and Permits	-	-	18,101	18,101
Federal Aid				
Surface Transportation Program	503,000	655,000	692,366	37,366
Economic Development "D" Funds	-	290,000	268,060	(21,940)
Federal Critical Bridge	45,000	-	-	-
FEMA	-	83,434	109,392	25,958
State Aid				
Michigan Transportation Fund:				
Engineering	10,000	10,000	10,000	-
Primary Road	2,036,000	2,160,000	2,170,712	10,712
Primary Urban Road	99,000	105,000	121,913	16,913
Local Road	1,089,000	1,155,000	1,149,315	(5,685)
Local Urban Road	66,000	70,000	76,678	6,678
Snow Removal	560,000	562,576	562,576	-
State Critical Bridge	-	44,000	7,124	(36,876)
Economic Development Fund:				
Forest Road "E" Funds	167,000	167,643	167,642	(1)
Contributions from Local Units				
Cities and Villages	75,000	23,000	29,949	6,949
Townships	150,000	243,000	243,362	362
Others	-	-	7,079	7,079
Charges for Service:				
Trunkline Maintenance	1,300,000	17,746	17,747	1
Salvage sales	-	-	9,315	9,315
Other	-	-	23,207	23,207
Interest and Rents	-	-	2,663	2,663
Other:				
Reimbursements	100,000	100,000	44,084	(55,916)
Gain on Equipment Disposal(s)	-	10,000	11,717	1,717
Total Operating Revenue	<u>6,590,000</u>	<u>6,124,399</u>	<u>6,171,218</u>	<u>46,819</u>
Other Financing Sources				
Total Revenue and Other Financing Sources	<u>6,590,000</u>	<u>6,124,399</u>	<u>\$ 6,171,218</u>	<u>\$ 46,819</u>
Fund Balance - October 1, 2003	<u>468,498</u>	<u>1,661,481</u>		
Total Budget	<u>\$ 7,058,498</u>	<u>\$ 7,785,880</u>		

**Houghton County Road Commission**  
**General Operating Fund**  
**Statement of Expenditures - Budget and Actual**  
**For the Year Ended September 30, 2004**

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Primary Roads:				
Construction	\$ -	\$ -	\$ -	\$ -
Heavy Maintenance	1,177,000	2,201,500	2,102,782	98,718
Maintenance	1,653,000	1,833,500	1,791,745	41,755
Local Roads:				
Construction	-	-	-	-
Heavy Maintenance	161,000	251,976	251,629	347
Maintenance	1,808,000	2,106,000	1,960,879	145,121
Primary Roads Structures:				
Construction	-	-	-	-
Heavy Maintenance	-	-	-	-
Maintenance	-	-	-	-
Local Roads Structures:				
Construction	-	-	-	-
Heavy Maintenance	-	62,524	62,524	-
Maintenance	-	-	-	-
State Trunkline Maintenance	1,300,000	18,036	18,036	-
Equipment Expense - Net	80,000	335,000	263,611	71,389
Direct			1,686,483	
Indirect			674,299	
Operating			225,619	
Less: Equipment Rentals			(2,488,141)	
Administrative Expense - Net	334,000	459,500	442,767	16,733
Administrative Expense			394,644	
Engineering Expense			-	
Less: Overhead - State Trunkline			(134,246)	
Purchase Discounts			-	
Capital Outlay - Net	(23,000)	(300,000)	(316,741)	16,741
Capital Outlay			2,147,372	
Less: Depreciation Credits	-	-	(276,623)	-
Less: Equipment Retirements	-	-	(822,750)	-
Other	100,000	-	-	-
Debt Service				
Principal Payment	-	-	-	-
Interest Expense	-	3,583	3,582	1
TOTAL EXPENDITURES	6,590,000	6,971,619	\$ 6,580,814	\$ 390,805
FUND BALANCE - September 30, 2004	468,498	814,261		
Total Budget	\$ 7,058,498	\$ 7,785,880		

## Supplemental Financial Information

**Houghton County Road Commission**  
**Analysis of Changes in Fund Balance**  
**For the Year Ended September 30, 2004**

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Revenues	\$ 3,731,269	\$ 2,314,241	\$ 125,708	\$ 6,171,218
Expenditures	<u>4,298,078</u>	<u>2,574,010</u>	<u>(291,274)</u>	<u>6,580,814</u>
Excess of Revenues Over (Under) Expenditures	<u>(566,809)</u>	<u>(259,769)</u>	<u>416,982</u>	<u>(409,596)</u>
Other Financing Sources (Uses)				
Interfund Transfers In (Out)	<u>566,809</u>	<u>259,769</u>	<u>(826,578)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>566,809</u>	<u>259,769</u>	<u>(826,578)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>(409,596)</u>	<u>(409,596)</u>
Fund Balance - October 1	<u>-</u>	<u>-</u>	<u>1,661,481</u>	<u>1,661,481</u>
FUND BALANCE - SEPTEMBER 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,251,885</u>	<u>\$ 1,251,885</u>

**Houghton County Road Commission**  
**Analysis of Revenues**  
For the Year Ended September 30, 2004

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Taxes	\$ 29,159	\$ 399,057	\$ -	\$ 428,216
Licenses and Permits	-	-	18,101	18,101
Federal Aid				
Surface Transportation Program	655,322	37,044	-	692,366
Economic Development "D" Funds	268,060	-	-	268,060
FEMA	-	109,392	-	109,392
State Aid				
Michigan Transportation Fund:				
Engineering	6,538	3,462	-	10,000
Primary Road	2,170,712	-	-	2,170,712
Primary Urban Road	121,913	-	-	121,913
Local Road	-	1,149,315	-	1,149,315
Local Urban Road	-	76,678	-	76,678
Snow Removal	259,769	302,807	-	562,576
State Critical Bridge	-	7,124	-	7,124
Economic Development Fund:				
Forest Road "E" Funds	167,642	-	-	167,642
Contributions from Local Units				
Cities and Villages	26,899	-	3,050	29,949
Townships	14,000	229,362	-	243,362
Others	-	-	7,079	7,079
Charges for Service:				
Trunkline Maintenance	-	-	17,747	17,747
Salvage sales	-	-	9,315	9,315
Other	11,255	-	11,952	23,207
Interest and Rents	-	-	2,663	2,663
Other:				
Reimbursements	-	-	44,084	44,084
Gain on Equipment Disposal(s)	-	-	11,717	11,717
Total Operating Revenue	<u>3,731,269</u>	<u>2,314,241</u>	<u>125,708</u>	<u>6,171,218</u>
Other Financing Sources				
Total Revenue and Other Financing Sources	<u>\$ 3,731,269</u>	<u>\$ 2,314,241</u>	<u>\$ 125,708</u>	<u>\$ 6,171,218</u>

**Houghton County Road Commission**  
**Analysis of Expenditures**  
**For the Year Ended September 30, 2004**

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Primary Roads:				
Heavy Maintenance	\$ 2,102,782	\$ -	\$ -	2,102,782
Maintenance	1,791,745	-	-	1,791,745
Local Roads:				
Heavy Maintenance	-	251,629	-	251,629
Maintenance	-	1,960,879	-	1,960,879
Primary Roads Structures:				
Local Roads Structures:				
Heavy Maintenance	-	62,524	-	62,524
State Trunkline Maintenance	-	-	18,036	18,036
Equipment Expense - Net	124,055	135,707	3,849	263,611
Direct				
Indirect				
Operating				
Less: Equipment Rentals				
Administrative Expense - Net	279,496	163,271	-	442,767
Administrative Expense				
Engineering Expense				
Less: Overhead - State Trunkline				
Purchase Discounts				
Capital Outlay - Net	-	-	(316,741)	(316,741)
Capital Outlay				
Debt Service				
Interest Expense	-	-	3,582	3,582
<b>TOTAL EXPENDITURES</b>	<b>\$ 4,298,078</b>	<b>\$ 2,574,010</b>	<b>\$ (291,274)</b>	<b>\$ 6,580,814</b>



## Compliance Section



# ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

## PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN  
ESCANABA  
IRON MOUNTAIN  
KINROSS  
MARQUETTE

WISCONSIN  
GREEN BAY  
MILWAUKEE

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of County Road Commissioners  
Houghton County Road Commission  
Hancock, MI 49930

We have audited the financial statements of the Houghton County Road Commission, a component unit of the County of Houghton, Michigan as of and for the year ended September 30, 2004, and have issued our report thereon dated January 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Houghton County Road Commission's component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Houghton County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgement, could adversely affect the Houghton County Road Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in a separate letter to management dated January 21, 2005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

Board of County Road Commissioners  
Houghton County Road Commission  
Hancock, MI 49930

control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management, the audit committee, the Board, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

January 21, 2005



**ANDERSON, TACKMAN & COMPANY, P.L.C.**

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***Houghton County Road Commission  
Report to Management Letter  
For the Year Ended September 30, 2004***

To the Honorable Chairman and Members of  
The Board of County Road Commissioners  
Houghton County Road Commission  
Houghton, MI 49931

In planning and performing our audit of the financial statements of the Houghton County Road Commission for the year ended September 30, 2004, we considered its internal accounting control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of the internal control structure that, in our judgment, could affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**Reportable Conditions**

*Inventory*

We found that 6 of the 40 parts inventory items, tested the quantities in the perpetual inventory records were overstated. This resulted in a sample variance of 15%. We recommend that a physical inventory be taken on the total inventory annually. Also, we recommend that the Road Commission monitor the inventory on a regular basis.

\* \* \* \* \*

The above reportable conditions in the internal control structure are noted for your consideration. The following comments are not reportable conditions as defined by the AICPA but are management points for which we feel consideration should also be given.

To the Honorable Chairman and Members of  
The Board of Commissioners  
County of Houghton, Michigan

### **Other Comments and Recommendations**

#### *GASB No. 34 Implementation*

The Governmental Accounting Standards Board has recently issued Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" which will completely change the way local governments are required to prepare financial reports and infrastructure information. The thresholds and effective dates of the new reporting model is based on governmental and enterprise fund revenues for the base period ending in 1999.

Based on the financial results of the County of Houghton for the year ending September 30, 1999, you are required to implement the infrastructure reporting portion of GASB #34 for the year ending September 30, 2007.

Although implementation of the infrastructure reporting model is for the year ended September 30, 2007 the actual preparation must consider that the implementation affects the first date of that fiscal year. In other words you must be prepared to gather the proper information and implement the new standard as of September 30, 2006. The Board should consider developing an implementation plan that includes input from and consultation with the audit firm, individual units with the primary government, departments, and component units. We encourage you to start to begin preparing for this implementation as you are nearing the initial period.

\* \* \* \* \*

This report is intended solely for the information and use of the Commission's management, and others within the County Administration.

We appreciate and would like to thank the Commission's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

January 21, 2005



**ANDERSON, TACKMAN & COMPANY, P.L.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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January 21, 2005

Board of County Road Commissioners  
Houghton County Road Commission  
Hancock, Michigan 49930

We have audited the financial statements of the Houghton County Road Commission for the year ended September 30, 2004, and have issued our report thereon dated January 21, 2005. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the internal control structure over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each

of its major federal programs for the purpose of expressing an opinion on compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the compliance with those requirements.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management of the appropriateness of accounting policies and their application. The significant accounting policies used are described in the Footnotes of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded, either individually or in the aggregate, indicate matters that could have a significant effect on the financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in the performance of our audit.

**Conclusion**

This information is intended solely for the use of the Board and management and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLC*  
Certified Public Accountants